

Franklin Covey Co.(Q3 2025 Earnings)

July 02, 2025

Corporate Speakers:

- Boyd Roberts; Franklin Covey; Head of Investor Relations
- Paul Walker; Franklin Covey; Chief Executive Officer and President
- Jessica Betjemann; Franklin Covey; Chief Financial Officer

Participants:

- Alexander Paris; Barrington Research; Analyst
- Jeff Martin; ROTH Capital; Analyst
- Nehal Chokshi; Northland Capital Markets; Analyst
- David Storms; Stonegate; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Third Quarter 2025 Franklin Covey Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. I will now hand the call over to your speaker today, Boyd Roberts, Head of Investor Relations. Please go ahead.

Boyd Roberts^ Thank you, Victor, and hello, everyone. And thank you for joining us today. We appreciate having the opportunity to connect with you.

Before we begin, please remember that today's remarks contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 including without limitations statements that may predict, forecast, indicate or imply future results, performance or achievements and may contain words such as believe, anticipate, expect, estimate, project, or words or phrases of similar meaning.

These statements reflect management's current judgment and analysis and are subject to a variety of risks and uncertainties and that could cause actual results to differ materially from current expectations including but not limited to risks relating to macroeconomic conditions, tariffs and other risk factors described in our most recent Form 10-K and other filings made with the SEC.

We undertake no obligation to update or revise any forward-looking statements except as required by law. Now with that out of the way, I'd like to turn it over to Mr. Paul Walker, our Chief Executive Officer and President.

Paul Walker^ Thank you, Boyd. Good afternoon, everyone. We're happy to have the opportunity to speak with you today and to share an update on the continued performance and progress of the business.

I'm pleased to be joined not only by Boyd here today, but also by our new CFO, and Jessi Betjemann, from whom we'll hear from in a few minutes.

Despite an external environment that continues to be uncertain and where as a result of this uncertainty, organizations are scrutinizing costs at a greater level and delaying many investment decisions.

I'm pleased that in our third quarter revenue was in line with our expectations and that third quarter adjusted EBITDA was better than expected.

Specifically, revenue in the quarter was \$67.1 million and adjusted EBITDA was \$7.3 million, which was higher than the top end of our expected range of between \$4 million and \$6.5 million.

Last quarter, I shared that there were a few areas of the business in which we had experienced and expected to experience direct and indirect impact from the actions being taken by the federal government and by the associated economic uncertainty.

I express that in order to offset the impact of these factors on our profitability, we were undertaking a series of cost reductions in areas not impacting our main strategic thrust.

We've now completed the implementation of these cost reductions, and we expect that these actions will help offset declines in revenue related to government actions and to the general uncertainty in the economy.

Additionally, these cost savings, when annualized, will flow through and result in meaningful year-over-year increases in adjusted EBITDA next year as well.

In a minute, Jessi will share more detail about the initiatives we executed in the third quarter to reduce costs and how we've approached this in a way that eliminated nonessential costs while maintaining our investment in our growth initiatives.

The effect of government actions and their impact on our direct government business and our international business has been approximately what we thought and consistent with what we laid out last quarter.

We're pleased in the middle of an uncertain environment, we've continued to win and expect to win many large deals in our enterprise and education businesses. However the uncertainty in the environment pushed some of these wins late enough into our year to create a timing risk that we'll be able to get all the services delivered by year-end.

To provide for the potential that the same uncertainty may impact some of the deals we're working to close and deliver in the fourth quarter, we're making a revision to our guidance and now expect revenue in the range of \$265 million to \$275 million, you can see shown on Slide Four.

With the revision to the low end of our revenue guidance, we've widened the adjusted EBITDA guidance to be in the range of \$28 million to \$33 million in constant currency. The series of cost reduction actions we took in the third quarter create additional cushion and put the midpoint and the top end of our widened adjusted EBITDA range, consistent with our previous guidance.

Importantly, we see -- we continue to feel good about the fundamental strengths of our progress in the vast majority of our business and are confident the investments we've made and the actions we're undertaking will significantly accelerate our future growth.

I'd like to now talk for a couple of minutes about three key factors that continue to drive this confidence, which you can see reflected on Slide Five.

The first of these factors is the fact that the opportunities and challenges we help organizations address are mission-critical for them. The second factor is that we're achieving strong traction in the implementation of our go-to-market transformation in our Enterprise North America business. And the third factor that I'll talk about today is that our education business continues to be strong and to exhibit significant growth potential.

So getting into these in a little bit more detail, first, the opportunities and challenges we help organizations address are mission-critical for them. Our solutions help clients meet the moment as they double down on working to achieve their mission-critical objectives.

For thousands of client organizations and schools around the world, Franklin Covey is a trusted partner to leaders whose critical strategic priorities and organizational performance require a dedicated collective action of large numbers of people.

Our strategic strength derives from both the importance of the opportunities and challenges that we help organizations address and the strength of our solutions in addressing these opportunities and challenges.

The second key factor to talk about today is that we're already achieving strong traction in the implementation of our new go-to-market acceleration in our Enterprise North America business. The focus of our go-to-market transition and the associated growth investments is on achieving significant increases in two key outcomes, which we expect will accelerate growth.

The first of these outcomes is to significantly increase our number of new client wins and our revenue per win, revenue that comes from the combination of All Access Pass subscriptions and from strategically important subscription services.

And the second key outcome is to increase our expansion within existing client organizations. It's been just 180 days since we went live with this transition, and we're really encouraged by the traction and the early results we're achieving.

We've successfully separated our sales force into two teams, one dedicated exclusively to landing new clients and the other dedicated to expanding business within existing clients. All new salespeople, sales management, and client support roles have been filled per our plan and the associated restructuring is complete.

I feel great about the team we have in place in North America, and I'm pleased with the traction we're gaining in the midst of an environment of tremendous uncertainty for our clients.

I'd like to double-click on the second point a bit and share five indicators of progress and strength that I believe underscore the strength of our business, the importance of the outcomes we help clients achieve, and the traction we're achieving in our new sales transformation.

The first of these five indicators of progress and strength is our new logo performance. In this year's third quarter, we sold more new logos than we did in the third quarter last year.

Importantly, for many of these new logo clients, we also attached more subscription services, services such as training delivery, implementation support and coaching, which for these clients led to an increase in total contract value or revenue per win. We expect this same trend will continue to extend the future new logo wins.

Maybe I'll just briefly share an example of one of these new logo wins from the third quarter, a win that we feel is emblematic of several deals beginning to enter our pipeline and which illustrates the performance of the outcomes we're helping organizations achieve and demonstrates the way in which our new logo sales force is organized to sell highly strategic engagements. This recent new logo win is with a large \$6 billion information management company.

The client is working through a large global sales transformation to increase win rates decreased time to close and increase cross-selling of additional products. They're leveraging our sales performance solution, which includes the All Access Pass, in-person delivery, and our new AI sales coach functionality.

This win resulted in a \$2.3 million contract with about \$1.7 million scheduled to deliver in the coming quarters -- the couple of coming quarters. This win is a strong example of our new sales model in action.

We had the right rep focused on the right account, supported by subject matter experts and several new support teams who moved quickly and thus, we were able to win this deal in just under 50 days.

We're now in the midst of scheduling and completing the delivery of a significant portion of the services attached to this particular sale some of which may drift into the next quarter due to timing reasons, which is one of the reasons, as I mentioned earlier, we

revised our annual revenue guidance range. So that's the first indicator of progress and strength.

The second that I'd like to talk about is our client retention. The vast majority of our clients renew year after year. Despite the current more uncertain environment where nearly every company is scrutinizing every dollar of investment in spend and has the choice to renew or not to renew, we're pleased that the vast majority of our clients are continuing to choose to renew.

While the size of some of the populations covered have flexed down in the current environment and we've had a couple of larger clients who were unable to renew this quarter, our overall client retention or our client count remains strong and very consistent in the third quarter relative to previous quarters and has continued to be very consistent year-over-year and also when compared with historical results.

Just as we saw during COVID, the power of our content, our solutions and our subscription model is compelling clients to stay with us. Additionally and importantly, we're winning back clients whose circumstances had previously caused them to leave.

I'm happy to report that in the third quarter, we won back one of our larger All Access Pass clients that I had reported had churned in the second quarter of fiscal year '23. The third indicator of progress and strength is the percentage of our clients who are choosing to expand the size of their All Access Pass.

In this year's third quarter, we achieved robust expansion across our client base including a 15-point increase in the number of clients who expanded outside of their renewal period compared to the third quarter last year.

We achieved a similar increase in the second quarter and are encouraged that our new expand sales force is driving more activity across our existing client base, whether they're in a quarter where they're up for renewal or not.

I'll briefly share an example of the expansion is possible within a good portion of our client base. In the third quarter, we expanded our work with a large global packaging leader. After landing the account in fiscal '24, the client completed a complex acquisition.

It was an acquisition that has often occurs resulted in them feeling the need to stabilize their culture and unite two organizations to become one. Our team steered the client through a number of proof concept launches of Franklin Covey Solutions.

Our disciplined land and expand approach grew the subscription from an initial population of 200 people to 1,000 people on the All Access Pass for fiscal '25. And this added \$136,000 in new annual subscription revenue and has positioned us well for substantial multiyear upside across the organization's 50,000-person workforce. This win underscores our ability to navigate a complex M&A circumstance with the client, stay

aligned with shifting decision-makers and convert early traction into meaningful growth.

The fourth area of progress and strength I'll just briefly touch on is our growing percentage of multiyear All Access Pass contracts.

At the end of the third quarter, the percentage of clients in a multiyear contract increased from 55% to 58% and the associated revenue now under multiyear contracts increased from 61% to 62%.

For these multiyear clients, Franklin Covey is seen as a partner in driving sustained people and organizational performance.

The fifth and final area of progress and strength is our high attachment rate of strategically important subscription services. In the Enterprise division in the third quarter, our attachment rate of services continued to be a very high 60%.

In an environment where companies are cutting back on a significant portion of their spend on outside advisers and consultants, our clients continue to understand the value and the impact of our consultants and coaches and helping them achieve their mission-critical objectives.

In addition to our progress in these areas, we're also accelerating our marketing efforts to ensure that we're set up to fully penetrate our very large total addressable market in both our enterprise and education divisions.

To lead and accelerate our expanded marketing efforts, I'm pleased to report that Dariusz Paczuski joined the organization as our new Chief Marketing Officer on June 1st, and we look forward to him bringing his many years of experience as a marketing leader across several well-known and respected brands to Franklin Covey.

I'd just say that we feel confident that the actions we're taking to accelerate our marketing efforts, land new clients, and expand and retain existing clients will allow us to accelerate growth in the future.

The third key overall factor that I'd like to touch on before I turn some time over to Jessi is the ongoing strength that we're seeing in our education business.

We're pleased that despite the uncertainty introduced by the federal government with the proposed closing of the Department of Ed and the final expiration of ESSER funds. ESSER fund, as you'll recall are the education-focused COVID relief funds.

But despite those two circumstances, we still expect to grow our education business year-over-year on both the top and bottom lines and expect our addition of new schools and our school retention results to be as good, if not better this year than they were last year.

The overall third quarter performance in Education was solid with subscription revenue growing 13% and the balance of deferred revenue increasing 21%. Due to the timing of a couple of large contracts that came in during the third quarter last year and which we expect to come in during the fourth quarter this year, revenue in the third quarter was down slightly, but again, this was due to timing.

Looking forward, we expect another strong fourth quarter of subscription services and material sales in Education. Due to the volume of business, we expect to close between now and the end of August, there is the potential that some of that delivery could push into next fiscal year, which, again, we reflected in the updated revenue guidance I shared previously.

We continue to see strong demand for Leader in Me, driven by success in delivering the outcomes that educators, parents and communities care about, such as leadership development, student engagement and character building. The strong demand is fueling our transition from selling to initially to individual schools to now selling to entire districts. And in a handful of cases, we're now serving state-wide contracts.

We're pleased that there are now nearly 8,000 leader and me schools around the world. I'd now like to turn some time over to Jessi to provide some more detail on our financial results.

Jessica Betjemann^ Thanks, Paul. It's a pleasure to be here with you all on my inaugural call -- earnings call with Franklin Covey.

I am thrilled to be a part company that is a trusted partner or leaders of enterprises and schools around the world. The strategic priorities include building leaders, teams and cultures that achieve improved organizational performance and breakthrough results through collective action.

I look forward to partnering with Paul and the rest of the leadership team to help drive profitable growth and achieve the company's financial and strategic goals at an important time of our transition.

I also look forward to engaging with all of you on the call in the investment community and sharing our progress today and in the coming quarters.

In my remarks today, I'll start by walking through our quarter financial performance, which includes restructuring and cost savings initiatives. Then I'll turn to our balance sheet and capital allocation priorities. And finally, I will provide additional context around our revised fiscal year 2025 outlook.

For the third quarter, despite the current economic uncertainty, revenue was in line with our expectations and adjusted EBITDA beat our expectations, due in part to prudent cost reduction actions taken in the quarter. A summary of our consolidated financial results is on Slide Nine in the earnings presentation.

Total revenue in the third quarter was \$67.1 million and finished in line with our previously shared expectation at the low end. Revenue was down 9% from the prior year quarter and 4% year-to-date, but a 13% increase sequentially and essentially flat from the last 12 months for Q3 fiscal year 2025.

As expected, the reduction in revenue was driven by the direct and indirect impact of the actions taken by the government and the overall short-term economic uncertainty we are seeing in the marketplace that have affected both of our Enterprise & Education division.

Gross margin for the third quarter remained strong and was approximately flat year-over-year at 76.5% of revenue.

Operating expenses for the third quarter were \$53.5 million and increased \$5.7 million compared with the prior year, which was primarily due to a \$4 million increase in restructuring charges and a \$1.6 million increase in selling, general, and administrative expenses associated with the rollout of our go-to-market acceleration initiative.

During the third quarter, we optimized the investments we are making in our go-to-market transformation plan in the Enterprise North America segment and took disciplined cost reductions in certain areas of our operations.

We incurred \$4.7 million in expenses for these restructuring activities, primarily for severance and related costs. These costs were a key contributor to the net loss this quarter but were excluded from adjusted EBITDA.

The increase in SG&A expenses was primarily due to increased associate costs related to new personnel including new sales and sales support personnel hired in connection with the implementation of our new go-to-market strategy and the reorganization of our North America sales force.

The cost reduction actions were focused first on rightsizing government and international operations impacted by government action and second, on optimizing our go-to-market strategy in the expand teams and support functions to reduce our original \$60 million plan to \$13 million this year. However, we do not believe these actions will impact the intended results of our initial strategy.

Additional cost reductions were tied to eliminating nonessential head count additions planned for this year and other areas of the business, reducing the employee business bonus expense accrual, lower marketing and travel costs and managing discretionary spend across the board. This resulted in savings of \$3 million in this quarter and results in \$4 million savings in Q4 and an annualized run rate savings of \$8 million in fiscal year 2026. That will be partially offset by normal investment levels next year.

Adjusted EBITDA was \$7.3 million and \$6.8 million in constant currency, exceeding the top end of our quarterly guidance range of \$4 million to \$6.5 million in constant currency

as the lower revenue and gross margin for the quarter was more than offset by the cost reduction efforts I previously described.

Adjusted EBITDA decreased compared to the prior year's quarter of \$13.9 million due to the planned increase in growth investments we are making this year and a lower revenue.

Importantly, though, the foundation for increased future growth is evidenced by the 7% increase in our balance of deferred subscription revenue from \$83.8 million in Q3 last year to \$89.3 million this quarter.

Year-to-date cash flow from operating activities remained stable at \$19 million, but lower compared to \$38.4 million last year, primarily due to \$12.8 million lower net income driven by lower revenue, restructuring costs and planned higher spending levels to fuel the enterprise North America transformation efforts and also an \$8.3 million decrease in income tax payable as we no longer benefit from the utilization of our net operating loss position compared to last year.

This resulted in year-to-date free cash flow through the third quarter of \$10.6 million compared to \$30.6 million generated through the first three quarters of fiscal year 2024.

I'll turn now to a discussion of our business divisions. In the third quarter, our Enterprise division generated 70% of the company's overall revenue, with the Education division generating 28% of the company's revenue. As shown on Slide 10, revenue on our Enterprise division was \$47.3 million compared to \$51.9 million in the prior year.

As expected, Enterprise revenue was heavily affected by canceled U.S. federal government contracts geopolitical trade tensions and as a result, ongoing macroeconomic uncertainty.

The challenging business environment adversely impacted the value of new logo sales and expansion revenue, both domestically and internationally in the third quarter. The North America segment revenue was \$37.1 million, a \$3.5 million decrease from the prior year.

The combination of subscription and subscription services revenue in North America was \$33.7 million in the third quarter compared to \$35.9 million in the prior year and was down 4% year-to-date and 2% for the last 12 months, with a significant portion of the decline attributable to government.

Adjusted EBITDA for the North America segment decreased to \$6.2 million compared to \$10.8 million last year due to lower revenue and increased SG&A expenses tied to our planned go-to-market investments.

Our balance of billed deferred subscription revenue in North America was \$45 million at the end of the third quarter compared to \$47.2 million at the end of the third quarter in the

prior year. Our balance of unbilled deferred revenue was \$56.4 million compared to \$64.4 million from last year.

Importantly though, the number of North America's All Access Passes contracted for multiyear periods increased to 58% in the third quarter compared to 55% last year. And the contracted amounts representative of multiyear contracts increased to 62% compared with 60% in the prior year.

As shown on Slide 11, revenue from our international direct operations, which accounts for approximately 16% of our total Enterprise Division revenue in the third quarter was \$7.5 million, a decrease of \$1 million, primarily as a result of our business in Asia and the U.K. decreasing due to challenging business condition and the response to government actions, as we talked about last quarter.

As expected, adjusted EBITDA for the International direct operations segment decreased to \$0.3 million compared to \$1.3 million last year due to lower revenue and was partially offset by lower SG&A due to cost reduction actions.

Our International licensing revenue, which accounts for approximately 6% of our total Enterprise Division revenue in the third quarter was \$2.7 million, which was flat with the previous year. Adjusted EBITDA for the International license segment was relatively flat for the quarter year-over-year at \$1.3 million.

Turning now to our Education Division, as shown on Slide 12. The Education Division revenue in the third quarter was \$18.6 million, down 8% compared with \$20.2 million in the prior year but has grown 1% both year-to-date and for the last 12 months, which as Paul shared, is primarily due to the timing of a couple of large contracts that closed in the third quarter last year were similarly large contracts either closed earlier this year or expected to close in the fourth quarter.

The decrease is primarily due to less material revenue during the quarter as the new statewide initiative started during the third quarter of fiscal year 2024 and included a significant amount of training materials in the initial phases of the program.

Decreased materials revenue was partially offset by increased training and increased coaching revenue and membership subscription revenue. Delivery of training and coaching days remained strong in the third quarter and benefited from 16% higher revenue per day than in the prior year.

Education subscription revenue increased 13% in the third quarter to \$11.8 million. Combined subscription and subscription services revenue was down 2% to \$17.8 million in the third quarter but grew 4% year-to-date and grew 2% for the last 12 months.

Adjusted EBITDA for the Education division decreased to \$2.1 million compared to \$3.1 million last year due to lower revenue as SG&A remained flat because of some of the cost savings. Education balance of billed deferred subscription revenue increased 21% or

\$5.9 million to \$34.1 million, establishing a strong foundation for continued growth in the coming quarters.

We are seeing good momentum in our education division, particularly in the number of large state and district level opportunities as we are actively pursuing. This pipeline strength, together with a base of nearly 8,000 schools globally at the end of May gives us confidence in the demand for the kind of outcome our Leader in Me solution delivers and provides confidence in continued growth as we close the fourth quarter, which is historically education's strongest period.

I would like to now spend a few minutes discussing our balance sheet and capital allocation priorities. We will continue to pursue a balanced capital allocation strategy focused on three primary areas that are aligned with our strategic goals. First, maintaining adequate liquidity while managing an appropriate level of leverage to the economic environment.

Our business continues to produce reliable cash flow and our liquidity remains strong at over \$95 million at the end of the third quarter with \$33.7 million of cash on hand and no drawdown on the company's \$62.5 million credit facility.

Second, investing in strategic opportunities to drive improved market positioning, accelerated profitable growth and financial value, such as continued spend in product innovation transformation initiatives and opportunistic acquisitions; and finally, returning capital to shareholders as appropriate.

In the third quarter, we purchased approximately 372,000 shares in the open market at a cost of \$8.3 million. Year-to-date, we have purchased approximately 623,000 shares in the open market at a cost of \$17 million.

At the end of the third quarter, we had \$27.9 million remaining on the current \$50 million common share purchase plan authorized by our Board of Directors in April 2024.

We remain committed to being disciplined stewards of capital while staying focused on driving long-term value creation. Now turning to our financial outlook. The company updated its fiscal 2025 financial guidance to reflect current market dynamics and company cost reduction actions.

We now expect revenue in the range of \$265 million to \$275 million. The revision of the range considers two factors. First, it reflects the continued uncertainty impacting our clients' decision-making, as previously discussed in our Q2 earnings call.

Second, it reflects the timing risk for the delivery of services for some contracts we have closed in the last 90 days and expect to close this quarter that could slip into the first quarter of the next fiscal year.

With the revision to the low end of revenue guidance, we have widened the adjusted EBITDA guidance to be in the range of \$28 million to \$33 million. The midpoint and top end of this range is consistent with our previous guidance due to the cost reduction actions we took in the third quarter that will produce savings to beneficially impact this year.

To emphasize again, the cost reductions we took were prudent given the decline in revenue this year, but either tied to rightsizing areas directly impacted by government actions, optimizing our go-to-market plan, or reducing other nondiscretionary spend. Thus, we do not believe these actions will impact the intended results of our initial strategy and future growth expectations over time.

We plan to share updated guidance for fiscal year 2026 when we report at year-end in November, but due in part to the recent cost reduction actions we expect to generate a meaningful increase in adjusted EBITDA and free cash flow in fiscal year 2026.

Before I pass it back to Paul, I want to conclude sharing my excitement to be a part of driving the growth trajectory for Franklin Covey during this transfer period as we make progress on our strategic initiatives and manage through the current macroeconomic headwinds.

As shown on Slide 13, the fundamentals of our business model are strong, driven by six key elements. The first element is increasing revenue per client. Second, we have high revenue and customer retention. Third, we have high gross margins. Fourth, we have upfront invoicing.

Fifth, our business is a low capital intensity business. And sixth, we have disciplined reinvestment for growth. Through our go-to-market transformation efforts and with the strength of our underlying business model, we are committed to creating long-term value for our shareholders and customers. Paul, I'll now turn it back to you.

Paul Walker^ Thank you, Jessi. We're thrilled to have you as part of the Franklin Covey team and appreciate the many contributions you've already made in a short period of time. And I personally just want to say how excited I am to work with Jessi and for our partnership going forward.

In conclusion, before we open up the line to your questions, I just would end by saying that we're pleased with our third quarter performance.

We're now 180 days into the sales transformation of our Enterprise North America business. And despite an environment where uncertainty is prompting organizations to scrutinize costs, we continue to be confident in the actions that we're undertaking to accelerate future growth.

In the third quarter, we landed more new clients and expanded a large number of our existing clients. These were results that we expected and expect to continue to achieve with our new sales model.

Our education business also continues to be strong with significant growth potential. And as a result, as we've shared today, we expect to accelerate future revenue and achieve significant growth in adjusted EBITDA and free cash flow as we move into fiscal year '26 and beyond.

And so I'd like to now ask the operator to open the line, and we'd be delighted to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question will come from the line of Alex Paris from Barrington Research.

Alexander Paris^ Just a couple of questions, starting with the enterprise division. It's sort of hard to see the improvements given the challenges indirect and direct -- indirect and directly related to government and the uncertainty that ensues.

But it was encouraging to see that new loads are up and you're expanding within existing clients, which was the goal of this sales force transition. Are there any other milestones to share on that business, for example, size of pipeline growth in invoice sales, things like that?

Paul Walker^ Yes. I might point to just a couple of first of all, thank you for the acknowledgment there and recognize that we undertook this set of actions which we continue to have high conviction in at a time when the world became quite uncertain right at the same time. And so it is a little bit hard to see exactly how that's all going, but we do continue to feel encouraged.

And so as I mentioned, and you just called out there in the third quarter, we sold some more new logos. We saw expansion across a greater number of our clients, particularly those who were not for renewal.

I just say a point about that, one of the things in the old model was we were asking the same sales force to try to renew clients, expand clients, and go find and win new business. In this new model, those client partners are focused on selling to existing clients.

We've removed from them the new logo hunting responsibility. And therefore, the job is -- needs to be and is more than just securing and working with those clients that are up for renewal in the current quarter, the job is really to manage a set of clients that have renewals coming all throughout the year. to try to stoke and accelerate expansion, add

more services, et cetera, all the time within those clients, be looking for more opportunities to grow.

And so that is a metric that we're watching is hey, this off-cycle expansion? Because remember, we've only been in this model now for two quarters, the second and third quarter.

So we had declines up for renewal in those quarters, but the other half, approximately half of our clients haven't even had a renewal event yet. And so could we start to get more action going with that other half that we're not for renewal.

So we've been watching that closely, and that turned out to be the case in the second quarter and then turned out to be the case in the third quarter.

So I would say those are two really critical things we're watching. The number of logos we bring on, right, because we know that when we land a new logo, we get to then expand that get to add services to that and grow the lifetime value of that customer. And then can we get greater velocity and greater expansion within our existing clients.

Okay. You asked about a couple of other data points. So we're continuing to see our pipelines grow. We had a great quarter for marketing activities.

I can't remember if we announced on the last call that we had our Impact Conference. It was incredible. We had a number of prolific authors and speakers who joined us in addition to some of our own.

We actually had 27,000 people registered to attend. It's driven a tremendous amount of lead flow here through the third quarter. We had 4,000 people attend a webcast that we held on The Power of Leadership in Uncertain Times.

We had well over 1,000 people attend some live driving performance in uncertain times events. So this theme of everybody is focused on how do we continue to deliver in these uncertain times and are looking to Franklin Covey for the insights and thinking we have.

So that's -- those -- that's starting to work its way through our pipeline, both for new logo opportunities and for expansion opportunities. Maybe just two others quickly to just double-click on that I already mentioned, but I'll highlight again is that we're watching the services attach rate carefully.

We watch in the news every day at consulting firms and others who are having clients back away from some of those services. And we're pleased that we had another quarter where we had in the Enterprise division a 60% attach rate. And that number has kind of fluctuated between as high as low 60s and kind of low 50s and somewhere in between.

And this was another good attachment quarter so obviously something we're also watching. And then maybe just one other thing, Alex, I'd point to, and we'll give more clarity and data on this as we get a couple of more quarters in.

But not only did we increase the number of new logos that we sold in the third quarter, but for a good portion of these logos, we're attaching and contracting for more services at the point of sale out of the gates. And that's a function of our shift in our focus to selling to leaders and really making sure that we're selling solutions that deliver outcomes and with those outcomes comes demand for more of our services.

And so that's -- we'll disclose some metrics on that in the future, not ready to disclose exact metrics on it today. But directionally, we're seeing more services get attached to a number of those new logo wins. So those are just a few and happy to talk about more, if you'd like.

Alexander Paris^ No. No. That's very helpful. I appreciate the additional color. And then moving to the Education division. This is clearly the season, Q3 and especially Q4 for that business. And I'm actually surprised at the strength and the confidence that you have in the business, given all the uncertainty out there in K-12 land.

The education department getting cut in half, ESSER funds sunseting, things like that. You had 728 new schools in fiscal 2024. Is it your expectation that you'll be in line with that or better in fiscal 2025?

Paul Walker^ Yes. As I mentioned a minute ago, we do expect that the way that business is pacing is that we'll be there or potentially even a little bit better, both on the number of new schools we bring on and also the number -- the percentage of schools that we retain. And I would -- just to double-click and support something you said there, we're encouraged.

I think what -- you can do a year like this where, as you mentioned, the Department of Ed has what happened to it and then ESSER funds after the many years that those have been out there are now sunsetted. I think that the ability to grow in that environment speaks to a couple of things.

One, the need for a leader in a solution like Leader in Me. Two, the quality of that solution and what it's doing in the -- the real measurable outcomes it's producing for schools. And then third, I think Sean and team are doing a great job of navigating what has been a very unique and uncertain environment in education.

Alexander Paris^ Great. And then last question for you, and I'll let somebody else get in there. When you reported second quarter results, you took down guidance from your original expectations because of government contract cancellations, et cetera. And you put it into four buckets, the \$5 million impact from the government contract, international \$4 million, education, \$3 million and U.S. and Canada commercial \$3 million.

So you just reduced the midpoint of guidance by about \$10 million for similar reasons. I was wondering if you could address it by bucket or where is the biggest delta there in terms of expectations?

Paul Walker^ Yes. I would say it's the -- it's not coming from the government direct anymore. There's been a little bit of continued noise in the international number. But I would say the two buckets primarily, while education is doing great. The impact there is just simply the volume of business that's coming through education right now.

And as you know, that business is about 50% subscription and about 50% materials and services. And just the timing of getting all those services delivered, particularly as in the uncertain environment, some of the decisions get made just a little bit later.

So we've had clients making decisions, but they kind of start to stack up a little bit towards the end of the quarter. That same phenomenon then would be the fourth bucket you laid out, which is the impact on our enterprise clients.

And again, where the environment in the third quarter certainly didn't become more certain, even became a little bit more uncertain, and that has pushed some of the decision-making back which, as I mentioned in one of those client win examples, we've got \$1.5 million -- more than \$1.5 million of services contract and ready to be delivered there, we may not be able to get those all scheduled and delivered in the fourth quarter. They're going to -- some of those are going to drift in, and we've got a few like that.

So I would say the bulk of it is related to timing of getting services delivered and also the timing of just some of the decisions that we're tracking to try to get these deals sold, but there may be some that slip into the first quarter.

Those would be -- they primarily be a little bit of international a little bit of Ed just timing of delivery and then some additional uncertainty that's affected our enterprise clients and some of their timing.

Operator^ Our next question will come from the line of Jeff Martin from ROTH Capital.

Jeff Martin^ Paul, could you characterize the current environment with respect to how you foresee things potentially improving as we move into fiscal '26? It seems like in the face of perhaps sustained higher tariffs, budgets may continue to be scrutinized on the enterprise level. Just curious of your thoughts.

Paul Walker^ I think that's probably the case in what we would -- we're in the middle right now right in the middle right now of our fiscal '26 planning, and we're certainly planning with that in mind that the tariffs and other actions that are taking that uncertainty, hopefully, it will eventually go away.

But in the short run here, we're not planning that it will. And so we're planning to continue to kind of press through the environment just as we have been.

Jeff Martin^ Okay. And then I wondered if we could just kind of walk back through time. You look at the growth in deferred revenue. And in a lot of years, that's been in the double digits yet to follow through the subsequent year, we see maybe a third or less of that in total revenue growth. Just want to give you an opportunity to kind of help us see the bigger picture with respect to the growth in deferred revenue relative to the growth in total revenue.

Jessica Betjemann^ Well so the growth in the deferred revenue is driven by the invoiced amounts from prior year. So we -- that's going to kind of translate in terms of where -- what we've already currently have invoiced.

And then our current revenue growth is going to be a mix of the subscription revenues that have been contracted over time but then also the specific delivery of services that get delivered in that particular order.

Jeff Martin^ Right. I'm just -- looking back, services attachment rates relatively stable. The average pass size is increasing in general, each year, growing new logos, and just -- I've made the argument in my research notes that the deferred revenue build should ultimately be caught up by the growth in the total revenue, perhaps I'm missing something here.

Jessica Betjemann^ Yes. So one of the items -- so we are seeing the growth in new logos. It's accounts, the new clients that we're signing on. As Paul has mentioned, in terms of the value currently because of the current conditions, we are seeing some of the value being flexed down a little bit at this point in time. So that's kind of contributing as well but the overall ability to kind of penetrate and get new customers is growing.

Paul Walker^ I think, Jeff, what you said there is direction -- is right that as the invoice subscription amounts begin to grow again because those have been flat to down a little bit over the last bit of time here.

As that -- as those invoice amounts begin to grow, then we'll build up both way out there, unbilled deferred, but then deferred will also begin -- the balance will begin to grow and then that will translate, of course, into reported revenue.

And so what we're working our way through right now is we've had some -- we've had a number of quarters where the invoice subscription amount has been flat or even a little bit down in this current environment, and that decreases the amount of deferred. The actions we're taking, we believe, are going to start -- we'll start to change that trend and that will be the engine then that will start to pull through greater reported revenue growth out into the future.

Jeff Martin^ Great. And then one more for me, if I could. Could you speak to the adoption of AI service delivery? What's the uptake rate with clients currently? And

where do you think that can go to? I have to imagine there's a lot of potential leverage in the delivery of services through the (inaudible).

Paul Walker^ Yes. They're -- it's a great question. In fact, in the win that I highlighted in the call you might -- I don't know if I -- I might have breezed past it too fast, but one of the things we're utilizing is an AI sales coach as part of our helping clients succeed sales solution where that coach is AI-driven begins to know and understand your unique circumstances, your industry, the selling environment and can provide real-time coaching. And so that's one of the applications that we see for AI is in the coaching space.

Of course, we're a company focused on behavior change and transforming behavior and not just of individuals, but collectively across organizations. And we know that behavior change happens not only from being trained, not only from being exposed to new ideas, but having a coach and somebody who can help you sustain that behavior change.

It's no different in our industry than it is in trying to get in shape or the same principles apply where a coach is helpful.

And I think where coaching has historically been a human-to-human endeavor we're starting to see now and we've got an AI coach ourselves where the smarter the more intelligent that gets, we've got -- now got about 43% of our clients that are beginning to use our AI coach.

And we think that we'll -- we expect to continue to build that out more and more. And that could be a very low-cost way for us and very leveraged way for us and for our clients to make available to them something that historically was really only reserved for the very tip top of an organization.

Only a few people and companies received the benefit of executive coach. And we're going to focus on how can we democratize that through AI. So that's just one example of how we are using today and plan to continue to use it.

I think another -- just another quick example, by the way, is the deep content and solution customization and personalization that we can do. Many of our largest engagements over the years have had a custom element to them, where the client wants to customize the content or tailor the content to their unique industry to their unique client. They want tailored examples to really make that the solutions unique to them and helpful to them. AI now helps us do that much more quickly and at an even lower cost.

Operator^ Our next question will come from the line of Nehal Chokshi from Northland Capital Markets.

Nehal Chokshi^ Can you hear me now?

Paul Walker^ We can now yes.

Nehal Chokshi^ So listen, subscription revenue invoice, that's down 8% year-over-year. And from what I gather, the principal drivers here is it's declining because of the department of government efficiency plus new headwinds associated with the Department of Education funding uncertainty. Is that correct?

Paul Walker^ I would say those are two of the elements. And I would say the third is just some of the uncertainty that our enterprise clients are experiencing as a flow-through from tariffs and other government actions that have been taken. A good bulk of it is the first two you mentioned.

Nehal Chokshi^ So nothing to do with Department of Education funding uncertainty with respect to subscription revenue invoice being down then?

Paul Walker^ No. No. That's also -- yes, I mean to say -- so yes, the two things. The direct impact on the federal government and DOGE.

Some of the Department of Education, some related part of education [ph], then there's just the third point I was making is that the some related to the macroeconomic uncertainty impacting some of our enterprise corporate clients.

Nehal Chokshi^ Okay. Okay. Got you. All right. So given that subscription revenue is subscription revenue invoice is down 8% year-over-year, which arguably is your best leading indicator at this point in time.

Then you reconciled that with the statement that more new clients than a year ago, robust expansion across the proportion of our client base and effectively, retention rates remain strong and consistent with previous quarters and historical trends.

I mean given those three positive things, that would imply that invoice subscription revenue should be up not down 8% year-over-year, even with these headwinds being sighted [ph]. So can you just help me bridge here what's going on?

Paul Walker^ Yes. A couple of things I'd point to. It's a great point. So what we've got going on is on the -- let's talk about just some of the real fairly stabilizing and stable pieces in the business.

One is on the client retention side. So the client retention has remained quite steady. But we do have some clients who have downsized the size of their subscription in this environment.

So we're -- we love that, but we're glad that the choice would have been to downsize and go away and instead they're staying with us, but they have -- some of them have downsized the size of their path. So that's a drag on subscription growth. And it could be true the clients stay but also that the revenue associated with that client is lower this year than it was last year.

A second thing going on in that number is that while we are seeing expansion across a greater percentage of our clients, that doesn't mean that every client is expanding. And so we're just looking there as kind of a green shoot and a leading indicator that that's kind of an activity indicator that as our sales force is getting involved with these clients at a deeper level, we are seeing more of them expand.

But some of that expansion is not at the same dollar level as it was in previous periods when the common is more uncertain. So where we may have had a client expand for hundreds of users, they may expand for 800 user -- 100 users right now.

The third thing that's a little bit of noise in the number this year, Nehal, is that we had quite a large client last year that was a subscription client that converted that subscription to for some reasons related to their business, converting that subscription to an intellectual property agreement.

And so that renewal this year as the corporate there was no renewal activity -- and that's actually -- it was a couple of hundred basis points of drag just from that one client. And so those three areas will be, I think, the primary reasons why it could be true that we're seeing some more new logos we're seeing some expansion across a greater portion of our clients than we did a year ago.

And at the same time there's some offsetting factors from -- of the clients that aren't renewing. Some of those have been a little bit larger and some of the expansion dollars aren't quite as large in this environment.

But I would just say that largely, we're encouraged that clients are hanging in there. Their value -- they get value from the subscription. I think that this gives us a base then to continue to mine and continue to work with to drive future expansion as we move into next year.

Nehal Chokshi^ Okay. That's a helpful description there. And then you have one quarter left a \$10 million revenue range. So that's a really big revenue range. Do you really have that much uncertainty?

Jessica Betjemann^ I mean I think what we're trying to capture is the fact that the delivery of services and the timing for decision-making, I mean it is one quarter left. And so to be able to close some of the sales that we're working on and also be able to deliver within the quarter is tight. There is a possibility, though.

So that's the top end of the range is reflecting that we were able to close and do everything in this quarter. But there's a realistic view that it may not happen and things could get pushed into next year.

Paul Walker^ I would just say that the part of the -- if we were closing our quarter -- or closing our year in our first quarter or third quarter or something like that, the range is

obviously to be tighter. So Education, Sean and team are doing a great job, and that business is getting larger and larger every year.

And it still is a -- despite great efforts with the subscription business to smooth some of those quarters out, is still a really big fourth quarter business and getting bigger every year. And so that leads us to a little bit of a larger range. But I think we feel good about the range and where we might end up in that range.

Nehal Chokshi^ Okay. And then finally, the \$10 million revenue reduction, but only a \$2 million EBITDA reduction at the low end implies that you had greater operational quarterly cost cuts than what you had anticipated a quarter ago? A, is that true? And B, how much is that?

Jessica Betjemann^ Yes. So as I mentioned in my prepared remarks, we're able to kind of stay within that range at the midpoint and at the high end because of the cost reduction actions. So we -- the annualized view for next year is around \$8 million.

For this year, we benefited from about \$3 million of cost savings in Q3, and we're anticipating that to yield \$4 million savings in Q4. So, \$7 million this year through the cost reduction actions that we took, and that's what's benefiting our EBITDA even though we have the revenue decline.

Nehal Chokshi^ And that \$3 million and \$4 million for Q3 and Q4, that's not something that was contemplated previously.

Paul Walker^ Some of it.

Jessica Betjemann^ A small portion of it was but because of Q2 and seeing that revenue is coming down, we took more actions than what we do since then [ph].

Operator^ Our next question will come from the line of Dave Storms from Stonegate.

David Storms^ Just wanted to go back to education real quickly here. With it staying relatively strong year-over-year despite the mentioned materials bump received in FY '24. As you continue to make sales here, could you see that materials bump return in another wave? Or would you expect education revenues to be pretty stable here on out?

Paul Walker^ So it's a great question. The way that -- just to step back, the way that business works for a second is that every school that becomes the Leader in Me school, whether they're part of an individual school, a district or a statewide contract at the school level, they're purchasing a subscription to all the Leader in Me, content tools, portal, et cetera.

And then they don't have to, but many schools in education, they love physical materials. And so they'll also purchase physical materials. And then, of course, part of the offering

is the implementation of the Leader in Me that we do with teachers and faculty and then some doing coaching support.

So what happens with material is most schools do by those materials, both when they start initially and as they renew, we sometimes get a bulge in material that will happen in the quarter, and those are tied to when we win a very large district or in some cases, we've been winning very large statewide contracts where instead of schools coming on one at a time or in small clumps, these districts or states will bring on schools in very large clumps all the time.

And so they're ordering materials for 50 schools at a time instead of five schools at a time. And so you see a little bit of that from quarter-to-quarter, just -- and the impact is just depending on how many schools we signed up in that particular quarter.

So last year, in the third quarter, we had a very large contract come through, and we shipped a lot of materials. This year, we've got a -- we had a large one come in earlier in the year. And knock on wood, we hope we've got a large one coming in, in the fourth quarter and there'll be some materials there as well.

And so that's why the materials bump up and down a little bit, just tie to those sales. So God willing, there'll be a lot of big materials quarters out in the future as well as we continue to land big districts and make inroads with more states.

David Storms^ Understood, which is part of the mentioned strategy. So that's perfect. I want to also circle back to -- you mentioned in your prepared remarks a win back they had from a client earlier in this year.

I know you've also mentioned that there's tariff uncertainty in the near future. Can you maybe lay out the environment for more win backs, more warm leads that might be in your pipeline compared to new leads in the near future?

Paul Walker^ Yes. Yes, great question. So as I mentioned, we tend to have -- we have tended to have and even in this environment, continue to see that the percentage of clients who have an All Access Pass -- and I'll just talk about enterprise for a second, but it's also true in education for Leader in Me.

But the percentage of clients that have an All Access Pass that percentage that renew year-to-year has remained pretty consistent. The revenue associated has gone up and down a little bit depending on the environment the economic environment but even though it is a relatively high percentage, it's remain consistent, we do have clients to churn.

And so one of our big focus areas for us is we kind of have this mantra internally that like once a Franklin Covey client always a heavy client, clients for life, right? I'm thinking about maybe buying a T-shirt for everybody in the company that says clients for life.

We really hate it when we lose a client. And so we don't let a client at churn like go away. We reassign them. They have a salesperson and a marketing effort and our SDR team continues to stay in touch with them, and we do win clients back. That is, like you said, a very warm lead.

And oftentimes, clients are churning, they love the solution, they love their client partner. We do win-loss interviews. And when we do a -- a churn interview like that, we consistently hear. We love your solution. We love the team that's supporting us.

This thing happened and because of that, we can't renew right now but we'd like to come back. And so we do a good job of trying to chase those clients. And as you mentioned, we -- the reason I brought up the one from second quarter of fiscal '23 is we talked about that on the call.

And so I just wanted to come back for those who remember that and say we had a little bit of a celebration in here internally, and I said I'm bringing that back up on the script because we got that client back and it was kind of a -- it was a nice thing to see happen. So it's always part of what we do, and we'll continue to do it in the future.

Operator^ At this time, I'm not showing any further questions. I would now like to turn it back over to Paul for any closing remarks.

Paul Walker^ Just thank you again, everybody, for joining today. Thanks for your continued interest, the time you spend to understand the story and to follow us.

We're grateful for you. And we look forward to being back again in November to report on the full -- the fourth quarter and the full year fiscal results. And hope you have a great rest of your day. And for those that are in the U.S., we hope we have a great Fourth of July.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone have a great day.